

Message Text

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PAGE 01 OTTAWA 03213 01 OF 02 262130Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-02 INR-10
L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15 ICA-20
AID-05 COME-00 EB-08 FRB-01 TRSE-00 XMB-04
OPIC-06 LAB-04 SIL-01 OMB-01 STR-07 CEA-01 AGRE-00
ABF-01 FSE-00 SEC-01 /117 W
-----047638 262151Z /63

R 262112Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7875
INFO AMCONSUL MONTREAL
ALL OTHER CANADIAN CONSULATES POUCH

UNCLAS SECTION 01 OF 02 OTTAWA 03213

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 23.

1. SUMMARY: FOLLOWING DECELERATION OF GNP GROWTH IN FIRST QUARTER 1978, RECENT DATA INDICATES MODEST PICKUP IN ACTIVITY. REAL DOMESTIC PRODUCT, NEW ORDERS, AND CONSUMER CREDIT ROSE IN APRIL. BUSINESS IS MORE CONFIDENT, BUT IS STILL RELUCTANT TO INVEST. SHORT AND LONG TERM INTEREST RATES ESSENTIALLY STABLE IN WEEK. CANADIAN DOLLAR CONTINUED TO DECLINE. END SUMMARY.

2. ECONOMIC INDICATORS:

-- REAL GNP GROWTH SAGGED TO 2.7 PERCENT AT A SEASONALLY ADJUSTED ANNUAL RATE (SAAR) IN FIRST QUARTER FROM REVISED RATE OF 6 PERCENT IN PREVIOUS QUARTER. HOWEVER, FINAL DEMAND IN THE FIRST QUARTER GREW BY 4.4 PERCENT (SAAR), DOWN FROM 5.2 IN THE FOURTH QUARTER. FIRST QUARTER GROWTH
UNCLASSIFIED

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PAGE 02 OTTAWA 03213 01 OF 02 262130Z

WAS LED BY CONSUMPTION AND NET EXPORTS, WHILE PRIVATE INVESTMENT DECLINED. (SEE OTTAWA 3198)

-- SEASONALLY ADJUSTED (SA) INDEX OF REAL DOMESTIC PRODUCT ADVANCED 0.4 PERCENT TO 130.5 IN APRIL. GROWTH OF SERVICES MORE THAN ACCOUNTED FOR INCREASE IN INDEX AS PRODUCTION OF GOODS DECLINED. MINING PRODUCTION FELL BY

7.2 PERCENT; MANUFACTURING OUTPUT WAS UP BY 1.2 PERCENT. INDEX STOOD 2.8 PERCENT ABOVE ITS LEVEL OF APRIL, 1977.

-- NEW ORDERS IN MANUFACTURING (SA) WERE CDOLS 10.5 BILLION, UP 4 PERCENT IN APRIL FROM REVISED MARCH LEVEL OF CDOLS 10.1 BILLION. DURABLE GOODS SHIPMENTS ADVANCED BY 4.5 PERCENT IN MONTH; NON-DURABLES BY 3.7 PERCENT. NEW ORDERS (SA) ALSO ROSE RAPIDLY WITH INCREASE FOCUSED ON DURABLES. ALTHOUGH TOTAL INVENTORY HELD INCREASED IN APRIL, INVENTORY/SHIPMENTS RATIO DECLINED TO 1.85:1. INVENTORY/SHIPMENTS RATIO IS FAR BELOW ITS HISTORICAL AVERAGE LEVEL OF ABOUT 2:1; STAGE IS THUS SET FOR STRONGER INVENTORY ACCUMULATION IN SECOND QUARTER FOLLOWING LIQUIDATION WHICH OCCURRED IN FIRST QUARTER.

-- LABOR INCOME (SA) ROSE 0.7 PERCENT TO CDOLS 10.5 BILLION IN APRIL AND WAS UP 8.7 PERCENT ON NON-SEASONALLY ADJUSTED BASIS (NSA) FROM APRIL, 1977. AVERAGE WEEKLY EARNINGS ADVANCED IN APRIL AS DID AVERAGE WEEKLY HOURS. AVERAGE HOURLY EARNINGS (SA) IN MANUFACTURING DECLINED SLIGHTLY IN MONTH. AVERAGE HOURLY EARNINGS (NSA) WERE 7.8 PERCENT ABOVE LEVEL OF APRIL, 1977. INDEX OF INDUSTRIAL EMPLOYMENT (SA) DECLINED BY 0.2 PERCENT TO 144.6 (1961=100) IN APRIL. EMPLOYMENT FELL IN MANUFACTURING AND SERVICES AND ROSE IN OTHER SECTORS.

-- CONSUMER CREDIT (NSA) REACHED CDOLS 25.7 BILLION IN APRIL, A 12.3 PERCENT INCREASE FROM APRIL, 1977, COMPARED

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 03213 01 OF 02 262130Z

WITH 11.7 PERCENT IN TWELVE MONTHS TO MARCH. ACCELERATION IN GROWTH OF CONSUMER CREDIT IS LINKED TO RISE IN PURCHASES OF CONSUMER DURABLES.

-- IN SECOND QUARTER SURVEY, CONFERENCE BOARD ASSESSES BUSINESSMEN AS MORE OPTIMISTIC CONCERNING OUTLOOK FOR SALES AND PROFITS. RESPONDENTS NOTED, HOWEVER, THAT OPTIMISM WOULD NOT BE TRANSLATED INTO MORE INVESTMENT SPENDING DUE TO SUBSTANTIAL DEGREE OF EXCESS PRODUCTIVE CAPACITY.

3. SALES TAX ISSUE: GOC HAS DECIDED TO PROCEED WITH DIRECT REBATE ON 1977 FEDERAL INCOME TAXES IN QUEBEC, A PROPOSAL PQ HAD FOUND UNACCEPTABLE (OTTAWA 3093). AS MATTERS STAND NOW, TAX LEGISLATION WILL BE PASSED BY PARLIAMENT AND CHECKS MAILED DIRECTLY TO QUEBEC TAX PAYERS AND IT WILL BE UP TO PQ TO DECIDE HOW TO RECOVER THE FUNDS.

4. GOC SIGNS STANDBY: GOC SIGNED USDOLS 3 BILLION STANDBY AGREEMENT WITH U.S. BANKS (OTTAWA 2297). IN SIGNING AGREEMENT, FINANCE MINISTER CHRETEN REITERATED GOC'S INTERVENTION POLICY OF COUNTERING SPECULATION, BUT OTHERWISE LETTING "FUNDAMENTALS" DETERMINE PATH OF EXCHANGE RATE.

5. CANADIAN DOLLAR CONTINUED QUIET DECLINE DURING WEEK
CLOSING AT 88.90 U.S. CENTS, COMPARED WITH PREVIOUS WEEK'S
CLOSE OF 89.29 U.S. CENTS.

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UNCLAS SECTION 02 OF 02 OTTAWA 03213

6. CAPITAL MARKETS: SHORT AND LONG TERM INTEREST RATES
SHOWED MINIMAL CHANGE IN WEEK. INTEREST RATES ON 3 MONTH
TREASURY BILLS WAS 8.23 PERCENT COMPARED WITH 8.24 PER-
CENT PREVIOUS WEEK. GOC BOND ISSUE, CDOLS 1 BILLION (OF
WHICH BANK OF CANADA TOOK CDOLS 400 MILLION) WAS EASILY
ABSORBED. HOWEVER, PRICE OF ISSUE WENT TO DISCOUNT IN
SECONDARY MARKET, HELPING TO CONFIRM EXPECTATIONS OF SOME
ANALYSTS THAT LONG TERM RATES ARE ON WAY UP.

7. FOREIGN BORROWING: OFFERING OF U.S.DOLS 50 MILLION,
15 YEAR, 9.5 PERCENT HYDRO QUEBEC EUROBONDS HAS MET WITH
CONSIDERABLE MARKET RESISTANCE. ISSUE WAS PRICED AT
U.S.DOLS 99.5 TO YIELD 9.65 PERCENT, BUT FELL TO U.S.DOLS
97.25 (BID) IN SECONDARY MARKET, PUSHING YIELD TO 9.83
PERCENT. ENDERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 26 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978OTTAWA03213
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780265-0422
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780620/aaaaargx.tel
Line Count: 162
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 7616ee7f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2209962
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 23.
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/7616ee7f-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014